

Historical Factors Accounting for Differences in Black and White Wealth and Home Ownership

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This paper offers chronologies of institutional factors that have advantaged whites in the accumulation of wealth and in home ownership.

I. Institutional factors that have advantaged whites in accumulating wealth

According to data collected by the Federal Reserve for its 2007 Survey of Consumer Finances in 2007 median household income was \$30,851 for blacks and \$51,418 for whites or white household income was 1.67 times that of black households. Also in 2007 median net worth was \$17,100 for black households and \$163,001 for white households. {Net worth is the value of all assets minus all debts and hence a truer measure of what is “owned.”} White household median net worth in 2007 was 9.5 times black household median net worth. The immense difference between the ratios of 9.5 for net worth and 1.67 for income in 2007 is the consequence of years of public policies and practices that have systematically advantaged whites in the accumulation of wealth.

The wealth disparity between black and white households has worsened sharply in recent years. The Pew Research Center 2011 report found that in 2009 median net worth was \$5,677 for black households and \$113,149 for white households and hence white household median net worth in 2009 was 19.9 times black household median net worth. The Bureau of Census reports 2009 median household income was \$32,584 for blacks and \$51,861 for whites or white household income was 1.59 times that of black households. (Kochhar, Fry and Taylor 2011) The enormous rise in the white-to-black household median net worth to 19.9 in 2009 as compared to a white-to-black ratio of 1.59 for median household income is explained primarily in the crash of housing values with black households experiencing a with much greater relative losses in home equity than was true for white households. An analysis of the

causes of the 19.9 ratio is presented at the end of the section on institutional factors that advantaged whites in the accumulation of housing equity. What follows now is a list of some of the federal policies and practices that systematically advantaged whites in their overall accumulation of wealth. These policies and practices include:

The 1848 Treaty of Guadalupe Hidalgo that ended the Mexican-American War resulted in a massive transfer of land from Mexicans to white people throughout California, Arizona, New Mexico, Nevada, Utah, parts of Colorado, and small sections of what are now Oklahoma, Kansas and Wyoming. (Lui et al. 2006) In 1849 nearly 100,000 white people were drawn to the California gold rush. The Free Soil provisions of the California state constitution allowed whites to claim and own land while banning slaves and free black people from doing so.

The 1862 Homestead Act that granted citizens 160 acres of land for free if they would farm it for five years. Blacks and Native Americans were not given citizenship status and hence were not allowed to participate. (Lui 2004) An estimated 46 million Americans living today are descendants of Homestead Act beneficiaries. (Lui et al. 2006)

There was a huge wave of European immigration from 1850 to 1920 and while ethnic and religious prejudices were often virulent, the prejudice against poor immigrants was different from the prejudice black people experienced in two important ways. One the prejudices against immigrants not encoded into law unlike the obstacles for people of color. Two new immigrants could encourage their children to become “American” by becoming “white.” While these were wrenching choices, unlike people of color at least most of the Irish, eastern and southern European immigrants had that choice. Despite the discrimination unskilled European immigrants faced during this period they regularly displaced African Americans as workers on canals, railroads, construction and docks.

The 1933 Agriculture Adjustment Administration policy that took Southern “traditions” into account by paying 4½¢ per pound of cotton not grown to the landlord who was to pay the tenant ½¢. (Dubofsky & Burwood 1990)

The 1935 Social Security Act did not extend coverage to farm and domestic workers. Blacks were more than twice as likely as whites to be employed as farm or domestic workers. (According to the 1930 census 68.75% of gainfully employed blacks worked in agriculture or domestic services.) Twenty-two percent of white workers in covered occupations did not earn enough to qualify for benefits. The comparable figure for black workers was 42 percent. Consequently a much higher percentage of

black workers than of white workers were not covered by Social Security at its outset. (Lui et al 2006) The advent of Social Security changed families' attitudes toward not only how much to save, but what savings could be used for, including being able to afford higher education for children or making a down payment on a home, a home that might be the equity needed to obtain a business loan. {Domestic workers were included for Social Security coverage in 1950 and agricultural workers in 1954.}

The originally proposed 1935 National Labor Relations Act would have reserved the closed shop for unions that did not discriminate. The final legislation did not include the restriction on non-discriminating unions to use closed shops nor a clause barring racial discrimination by unions. The southern Democrats, who had voted to keep agricultural and domestic workers out of Social Security also excluded them from the NLRA. Furthermore, with the support of the AFL that was more interested in enhancing union power than reducing the discriminatory power of unions, were responsible for the changes in the final NLRA legislation. (Roediger 2005) Failing to disallow unions to engage in racial discrimination enhanced whites' access to jobs and crafts that offered premium wages.

The 1938 Fair Labor Standards Act did not apply to domestic and agricultural workers and consequently a much higher percentage of white workers enjoyed minimum wage protection and being paid time-and-a-half for certain overtime work. (Katznelson 2005)

The segregation of the armed services during World War II did not limit white soldiers' access to training in employable skills.

The 1944 GI Bill, formally known as the Servicemen's Readjustment Act, did not mention race, but like other federal programs was locally administered and primarily assisted white veterans. The local administration resulted in white vets not only having greater access to vocational training but being more likely to receive training for skilled and semi-skilled vocations while black vets were usually channeled into training for unskilled vocations. The US Employment Service, set up by the GI Bill, tended to steer white vets into jobs commensurate with their skills while typically steering black vets into jobs below their skills. While over two million vets went to college on the GI Bill, they were primarily white as black vets were denied admission to many white campuses. {While enrollment at black colleges went from 29 thousand in 1940 to 73 thousand in 1947, nonetheless between 15 and 20 thousand black veteran applicants could not be admitted for lack of space.} Furthermore, white vets were approved for home and business loans at

much higher rates than were black vets. (See the discussion of home ownership below for details.)

A 1997 court approved consent decree found the US Department of Agriculture advantaged white farmers in the allocation of price support loans, disaster payments, “farm ownership” loans and operating loans between 1983 and 1997 thereby settling the class action law suit Pigford v. Glickman. {Timothy Pigford is a black farmer who was initially joined by some 400 black farmers in the class action lawsuit. Dan Glickman was the then Secretary of Agriculture.} The court approved consent decree awarded an estimated 75 thousand black farmers damages of \$1.5 billion.

II. Institutional factors that have advantaged whites in home ownership

Because homeownership is the prime vehicle for wealth accumulation, factors that disadvantaged blacks in the accumulation of home equity merit their own chronology. A smaller percentage of blacks own their own homes and have substantially less wealth or net worth than do whites. Nonetheless home equity is more important to black households than it is to white households. Black households’ equity in their homes is 62.5% of their assets, while home equity is 43.3% of white households’ assets (Oliver & Shapiro, 1995). Family wealth is an important determinant in the across-generations amassing of wealth, starting a business and so forth. Home ownership is importantly related to the creation of business wealth, for homes often serve as collateral when entrepreneurs start a business. Wealth also has telling effects on educational outcomes. Conley (1999) found that household wealth has a larger impact on various measures of children’s educational outcomes.

Also Shapiro (2004) found that modest financial assistance from parents allowed white families to make down payments on homes. Such financial support advantaged white households in two ways: in being able to buy homes in neighborhoods with “better” public schools; and being able to make larger down payments that kept “points” from being added to the mortgage rate. The latter saved such white families thousands of dollars over the lives of their mortgages.

Percent of families owning their primary residence:

	White Non-Hispanic or	Nonwhite Hispanic	White to Black ratio
1995	70.6%	44.3%	1.59

1998	71.8	46.8	1.53
2001	74.3	47.3	1.57
2004	76.1	50.8	1.50
2007	75.6	51.9	1.46
2009*	74	46	1.61

Source: Federal Reserve, Survey of Consumer Finances (various); the 2009 rates Kochhar, Fry and Taylor 2011.

The 1933 Home Owners Loan Corporation, created to help home owners and stabilize banks, gave none of its approximately one million loans to black home owners allowing a higher proportion of black home owners to lose their homes during the remainder of the Depression. (Liu et al. 2006) The HOLC created detailed neighborhood maps that, among other things, took into account the neighborhood's racial composition as well as its likelihood of racial infiltration.

The Federal Housing Administration, established in 1934, was not explicitly a white program, but realtors and hostile white neighbors kept families of color out of white neighborhoods and the FHA condoned redlining practices initiated by the HOLC, which precluded loans in predominantly black neighborhoods.

The HOLC and subsequently the FHA created strong preferential options for whites as planners, builders and lenders were encouraged to promote racially and class homogeneous neighborhoods. (Roediger 2005) Up through the 1940's FHA manuals and practices channeled funds to white neighborhoods and collaborated with blockbusters. The policies disproportionately concentrated blacks into substandard houses. In 1948 the Supreme Court ruled against restrictive covenants and yet the FHA continued to push for them as conditions for loans. President Kennedy's 1960 Order 11063 mandated federal agencies to oppose discrimination in federally-supported housing. The FHA did not communicate the Order to local offices. Indeed of the approximately \$120 billion in new housing financed by the VA and FHA by 1962, 98 percent of it went to white home owners. These white recipients are the parents of the baby boomers, and their homes are a significant portion of the \$10 trillion in inheritances now being passed down to the baby-boom generation. (Lui et al. 2006) The 1968 Fair Housing Act authorized HUD to investigate complaints yet HUD had no enforcement power and could only refer cases to the attorney general. (Lipsitz 1998)

The 1974 Equal Credit Opportunity Act prohibited discrimination in real estate lending and required banks to record the racial identity of applicants rejected and

accepted for home loans. While the 1974 Act had the appearance of ending racial discrimination in real estate lending, it is worth noting that the banks refused to collect the data, by race, on rejected and accepted applicants. In 1976 ten civil rights groups filed a suit to have the court order the FDIC and the Home Loan Bank Board to obey the 1974 law requiring the banks to keep and report the race data. In 1981 the FDIC ceased keeping race records when the court order ran out. President Reagan used the Paperwork Reduction Act to stop HUD from gathering data on the racial identities of participants in housing programs. (Lipsitz 1998)

Black families were targeted for subprime or predatory mortgage loans. Black households were much more likely than similarly qualified white households to be steered to a subprime loan. As a result black households were over three times more likely than white households to have a subprime mortgage. Subprime mortgages involved higher rates of interest and typically higher fees and, in turn, cost the average borrower tens of thousands of dollars more and were more likely to result in foreclosure. In December 2011 the US Department of Justice, announced a \$335 million settlement with Bank of America/ Countrywide for its predatory practices that targeted black and Latino households. The settlement noted that between 2004 and 2008 some 200,000 African American and Latino borrowers were charged more for their mortgages than were similarly qualified white borrowers. The Center for Responsible Lending found that over a thirty-year mortgage a typical subprime borrower would pay over \$35,000 for their loan than if it had been a retail loan and being over three times more likely than whites to be in foreclosure that in turn meant the loss of billions of dollars of wealth. (Ernst, Bocian, and Li 2008.)

Between 2005 and 2009 black household median net worth fell 53% from \$12,124 to \$5,677 while white household median net worth fell 16% from \$134,992 in 2005 to \$113,149. (Kochhar, Fry and Taylor 2011) The devastatingly large 53% fall in black household median net worth compared to the 16% decline for white households is largely accounted for by the fact that black households who own homes have a higher proportion of their wealth in their homes than is true of their white counterparts. This means that black household wealth is relatively more sensitive to the consequences of being disproportionately subjected to subprime or predatory home loans with their attendant higher mortgage costs and likelihood of being foreclosed than is true of their white counterparts.

Furthermore between 2005 and 2009 black household net home equity—that is, value of the home minus the mortgage balance due—fell by 23% while the comparable figure for white households was 18%. (Kochhar, Fry and Taylor 2011)

Not only did black households typically experience greater relative loss in housing value during the housing crisis, but in the period preceding the housing crisis, white owned homes appreciated at a median annual rate of 8.1% (2001-2004) and 5.1% (04-07) while black owned homes appreciated by 6.4% (2001-2004) and 4.6% (2004-2007). These percentages correspond to median annual increases of \$85,000 for white-owned homes as compared to \$45,000 for black-owned homes. (Data from 2001, 2004 and 2007 Survey of Consumer Finances.)

These data reveal is that the good years for homeownership and the poor years are impacted by the long history of policies and practices that have resulted in black households being limited, no longer legally, but in practice, in their access to home ownership in appreciating areas and confined to home ownership areas with diminished appreciation and greater depreciation because demand for their homes is restricted due to black households disparate access to more affordable mortgages and to finding that potential home buyers where they own their homes are typically narrowed to buyers of color rather than the whole range of potential home buyers.

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